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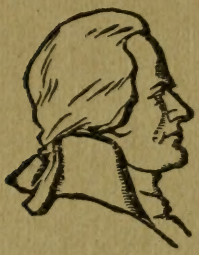
[Modern business talks]

THE INDISPENSABLE MIDDLEMAN

An understanding of the service of the middleman removes the frequent suspicion that he is the fifth wheel on the business wagon.



MODERN BUSINESS
TALK No. 37
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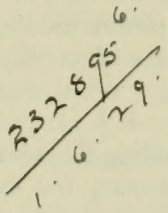
The Indispensable Middleman

This Talk, to be read in connection with Volume 19, forms part of READING ASSIGNMENT 37



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READING ASSIGNMENT

The current reading assignment consists of three parts: (1) this Talk, (2) Part I of the MODERN BUSINESS Text on "Merchandising," and (3) Lecture 19.

The typical success formula in playing up the will, suggests either self-denial or aggression, and thus repels many of those who most need a formula. Neither is necessarily involved. The process begins with deciding the kind of success you want. The next stage is to picture the steps that lead to it. Lastly, you must find a way or ways to make the step or steps interesting. When that is done, the "will" acts automatically—it is no task to do what you want done. As to making the matter interesting—the current reading assignment, for example—there is nothing like picturing the results to come from it. The results are the steps.

The Indispensable Middleman

> The successful buyer must have a capacity for detail and for study. He is an expert on the kinds of goods which he buys, and undoubtedly he has to know more about them than anyone else who handles them except the manufacturer.—Page 53, Chapter IV, Part I, Volume 19 of the MODERN BUSINESS Text.

It would be hard to pick a more interesting period in the history of merchandising than that at which we stand. It is a time of rapid and significant change. The old channels of distribution are shifting. The once autocratic power of the middleman has been broken. Unless all signs fail, the next near period will be a golden one of cooperation.

Old and New Methods of Merchandising

Evidence on this head can be found in the experience of any progressive concern in the distributive field — that, for instance, of a certain wholesale grocery house. This house had lost its vice-president, who was also merchandise manager, two or three years previous to the outbreak of the war in Europe. Soon afterward the president called in one of the buyers, head of a division in the merchandise department.

"Dennett", he said, "I'm going to surprise you. We are not going to choose a new vice-president to manage the department. I am going to put the department in your hands and it will depend on you whether it stays there. You are familiar with the situation. Do what ever you think is needed."

That was a brief introduction to about the most important position in the house, but Dennett knew why it was brief and what had prevented the president from going into details. Jarrett, the old merchandise manager, had been a man of exceptional, even spectacular buying ability, but he had run his department with a high hand and had overlooked things that modern merchants consider vital. Visiting salesmen, for instance, were treated with scant courtesy. Too often they were allowed to cool their heels a long time in the outer office, only to be later grilled to a turn in the inner. Jarrett was a buyer of the old school, who, alternately wheedling and thundering, extorted the last possible fraction of a cent from the seller. The president had thought it poor policy to squeeze the little fruit or vegetable canners and packers to the point of ruin, as Jarrett notoriously did when he got a chance, but the old merchandise manager showed his profits and chuckled. He was an officer of the company and had the board of directors behind him.

What the President Would Have Liked to Say

Dennett was well aware that the president had not spoken his full mind. He would probably have liked to say:

"Dennett, I am putting you in Jarrett's place because I want to have an up-to-date buying department in this company. I want you to reorganize it on modern lines, much as we have reorganized the sales, operating and finance departments. I want team work and team spirit in the office—and outside of it. You know as well as I do that we can't have our own way all the time. We must be fair and cooperate with our sources of supply. I want a liberal and progressive policy toward them just as we have toward our retail outlets. I believe you can apply it without losing ground for a single month. I will hold off the board of directors until you can show results and give me the sort of a department I want."

The new junior officer was young, but he had made good use of his time. He had taken all that a university school of commerce could give him and had never ceased to be an ardent student of business in its every phase. With little assistance and no sympathy from the old head of the department he had developed his own division of it to a point of almost automatic precision. The president had long had his eye on him.

Dennett's first act as merchandise manager was to provide for making the department records and statistics complete and up to date as his own division records were. Jarrett had had a prodigious memory for details and an equally prodigious contempt for any system beyond the rudimentary one he employed. It would have taken forty such memories to keep track of all the multitude of figures on stock limits, turnovers and mark-ups, purchases, receipts, stock on

hand, unfilled orders on contracts, statistics on market conditions and various other indispensable data. As they were not on file, or not completely so, in the merchandise department there was a continuous call from Jarrett and his buyers on the other departments for this and that sort of information, a continuous jingling of bells, and a continuous stream of boys passing in and out, with Jarrett's voice often high above all, roaring out orders and demands.

Two Ways of Running a Department

Under his régime, none of the dozen or more buying heads ever at any time knew just how this department stood. Sometimes Jarrett left them to their own guidance for weeks, then again hardly a day passed that there were not interferences, countermands, conferences, worrying and heart-burning. Toward the close of the fiscal year the temperature was tense and tropical. Yet you could not have called Jarrett inefficient; somehow he jammed things thru and "got results."

About a week after Dennett's installation, the president noticed that he was calling for all sorts of figures from the accounting department and looked in to ask what he was doing.

"I'm getting ready to propose a buying control", answered Dennett.

"Go to it", was all the president said, but Dennett knew that he was on the right track.

Buying control, as you may know, is simply buying on plan—as much plan as buying will stand. A good

deal of buying is not subject to such control. Some of it has to be done on contract, far ahead of delivery. Other buying is done from day to day in small amounts when the market is falling, in larger when it is rising. Still it is possible, and advisable, to apportion the buying capital among the several divisions and regulate its use from month to month more or less automatically. In this way, for example, the amount of staple merchandise handled on a small margin is kept in the right proportion to the amount of profitable merchandise: buyers are prevented from plunging on volume at the expense of profit. The buyer's eye, too, is constantly directed to the size of his stock; the system is a reminder to buy in small quantity at low price in order to increase turnover.

Buying Control Based on Budget Idea

The value of buying control had been thoroly demonstrated in department stores and a few jobbing houses, and the president of the company, as Dennett knew, had long considered it. It could not, however, be installed in a moment. Dennett was days working on the plan. Meantime he converted everybody to it, even the doubting buyers.

"It boils down to this"; he said in explaining it to the directors, "we estimate from last year's figures the probable amount of business we can do in each division of the department. On this basis we make an allotment for each month according to probable requirements. That is our guide. A buyer doesn't have to spend his whole allotment every month. Any

balance is credited to him for the following month. He cannot spend more than his allotment without getting a special appropriation, altho an unexpected increase in sales automatically provides for an increase in allowance. If sales fall below quota, the buying allotment will be correspondingly cut to prevent overstocking. The system is elastic, but it is system."

When the control was finally established the first of the year, it justified all expectations.

Closing Up Gap Between Buying and Selling

It goes without saying that the relation between the merchandise and sales department of a wholesale house can hardly be too close. When the company in question was smaller, its salesmen had been under the direct charge of the buyers. Later a sales manager was appointed. After that whatever cooperation prevailed between the two departments started from the sales end. Jarrett insisted on the absolute inerrancy of his own department. Contemptuous of conferences and regardless of sales reports and protests, he bought goods and planned sales campaigns that often turned out downright impositions on his sales associates. But for every failure of the goods to move quickly he blamed the salesmen.

One of the first things Dennett said to the sales manager on taking charge was this:

"From now on, the lid is off on all complaint and criticism. Let us have the truth about every item and every condition in the field just as soon as the sales-

men can get it to us. We will decide later how far they are right."

Needless to say, this policy uncovered many weak spots and compelled their strengthening.

While these things were going on, the question of electing a vice-president and putting him in charge of buying came up from time to time. But always the president had some new reason for letting well enough alone.

Keeping Sources of Supplies Lined Up

"Do you know", he once said, "I've had dozens of letters from as many different packers expressing their appreciation of the exceptional treatment their salesmen are getting from our buyers and particularly from Dennett? As many more have said the same thing to me in conversation. It isn't as if they were putting something over on us, either. Our records will show they're not. I know, too, that we are getting the first chance at many 'buys' that otherwise would have gone to the chains. One of the chain store men told me so the other day and blamed Dennett for it.

"And let me tell you", continued the president, "he is no armchair buyer. Do you know where he was last week? Out at Johnson's factory. They could not get together for a price for the coming season's pack. Johnson would have had to take our price anyway —this time. But as Dennett said, we don't want to kill him off or drive him into the arms of some other jobber. We shall need him more next year than we do now. Dennett slipped out to the factory, went over

the whole proposition from field to freight-cars and showed Johnson two or three ways to cut corners that he hadn't considered. Before he finished with him, Johnson was in a hurry to close at the old price for fear a lower one would be suggested.

"This kind of policy is going to give us the lowest practical figure, and at the same time leave the packer satisfied and prosperous and ready to keep on with us. I think you will agree with me that is fine constructive work.

Not Asking Too Much of Producers

"Another thing I like is that Dennett is not playing favorites or trying to punish producers who will not play the game exclusively with us. It is idle, gentlemen, to suppose that we can control advertised brands, or long continue to get inside prices on them. If we can get exclusive territory for even a year or two on an advertised brand I don't see why we shouldn't do it. That is Dennett's attitude. We are taking on many new propositions at no extra expense. They will net us a considerable profit."

Dennett became one of the strongest men in the house. Unfortunately for it, his reputation outside grew even faster, and before the friendly president and his directors got around to make proper room for him in the organization, he was snapped up by one of the large drug chains and put into an executive position where his knowledge of buying methods and general business practice easily made up for his unfamiliarity with the line.

Naturally only a few of the principles of buying have been touched upon in this story of a buyer's experience. They are discussed more at length with others in the chapter on "Merchandising the Business" in the current reading assignment of the Text.

What War Has Done to Merchandising Policies

Merchandising has of course been profoundly affected by the War and the shift in demand. In the grocery field the federal food regulations have necessarily hampered enterprise. Profits must be "reasonable" now. For instance, jobbers who have overbought are in danger of prosecution if they re-sell to other jobbers at an advance in price, even to cover expense. The congestion in freight and the shortage in cars are other factors in the situation. Of course, the United States and foreign governments have gone over the heads of middlemen to buy direct from the producers.

The merchandise department is one of four departments in the average jobbing business. Another is the financial department. An important chapter in the Text on this subject shows how progressive wholesale merchants lay out their annual budget, from which the expenditures of all departments are calculated and allotted. Again, the care and account of the stock of merchandise are among the functions of the operating department described in the chapter so entitled.

When we come to the sales department we encounter a number of man-sized problems. One of

the most important has to do with the salesmen. Jobber's salesmen work on a different plan and schedule from those of the manufacturer's general or specialty salesmen. They take orders, not on, say, one, ten or a hundred "numbers" or items, but on several thousand. It is impossible for them to do much more in each sales interview than book the order. They have little time for selling talk. But for all that their value to their customers and influence over them are great.

Jobbers' Salesmen Strong With Their Trade

"You have probably heard it said that the jobber's salesmen own the business", said a jobber, "and there is a good deal more truth than poetry in the statement. When a salesman is 'any good', he controls a lot of his trade and takes it along with him when he goes with another house.

"Such as our salesmen are, we have generally objected to advertisers getting after them with prize offers and other forms of influence to secure their cooperation in pushing brands. Too often these offers simply resulted in a shift of sales and did not increase the total.

Latchstring Out for Manufacturers With Ideas

"Conditions are changing now. Manufacturers who come to us with educational ideas, who show our men how to sell all kinds of goods, including their own, get our attention. We have let manufacturers come into our sales conferences to talk to salesmen

and go out into the territory with them to demonstrate any new wrinkles. We do not any longer object to prize contests if they make better salesmen of our men."

A cigar manufacturer tells how a number of jobbers were persuaded to cooperate when approached in the right way. They had long protested inability to discriminate in favor of any one brand. They admitted that their men were "order takers."

"After I had heard this a few hundred times", said the manufacturer, "I decided to do something desperate. Sales contests had cost too much. Other things didn't pay. I sent an investigator out to look the territory and salesmen over. When I received his report I went to the jobbers and made some suggestions. The first was to reroute their salesmen. Left more or less to themselves, the men had been swapping customers and doubling back and forth over their districts. I pointed out how much time could be saved for constructive work by having salesmen stick to their territory.

"My second suggestion was to cut out the talk—and there always is some talk, whatever the jobber says—on the least profitable items and concentrate on the half dozen live brands that would repay pushing. Ours, of course, was among the live brands.

Salesmen Must Get a Chance to Talk Business

"I showed it was necessary for the future of the salesmen and their own business to have them get some time to talk business instead of parroting a dozen

words about this and a dozen about that, and so on down the list. I made a number of other suggestions, but these were the most important. They were all adopted by the jobbers and they worked."

Progressive jobbers aim at making better merchants out of their customers and pass along anything in the way of selling ideas, short cuts in store management, and so on, either thru their salesmen, or thru office letters and the house publication.

The most notable examples of service to dealers are provided by the jobbers who sell from catalogs. The effort to make the catalog "pull" has developed systematic assistance for customers. Customers are coached in every detail of business from selecting a store site to the amount of rent to pay, stock to order, how to display it, how to utilize every inch of space in the store and an endless number of other "hows." Special investigators pay hurry calls upon those who are in danger of going to the wall and show them how to keep away. It costs the jobbers a little, but it saves customers.

Quantity Prices and Their Result

The one big jobbing difficulty is the price problem. The jobber himself has had a hand in creating it. He fostered the rapid growth of the department stores, mail order houses and chains by providing quantity discounts, and when the time came that he was unable to go low enough to satisfy the ever-increasing demands of these big units for price concessions, they turned away from him and went after the

manufacturer. The little independent retailers, suffering from the jobbers' discrimination, have retaliated by forming buying exchanges for the same purpose of going to the producer. In the meantime, the jobber, entering the manufacturing field, began to come more and more in competition with his sources of supply, and entering the retail field with chains of stores, came into competition with his customers. All jobbers did not do this, but those who did have no legitimate complaint to make now that their own chickens have come home to roost.

A manufacturer who has made a close study of the entire jobbing field is optimistic over the future.

"The jobber", he said, "is at a fork in the road. One road keeps to the line of cut-throat competition. Most jobbers, however, are going to follow the other road. They are going to specialize again in jobbing. The jobbing service never can be eliminated. Somebody must do the work of wholesale distribution, and while business is on a credit basis, furnish credit to retailers.

Let Jobber Go Back to His Knitting

"What is the irreducible minimum of jobber's service that cannot be taken away with him? Let the jobber find that out and then build on it. When that is done, manufacturers and retailers will have to drop jobbing and beat it back to their own special field."

The further facts concerning these interesting matters are detailed in the chapters on "Merchandising Policies", "Manufacturing Jobber and Semi-Jobber"

and "Cooperative Jobbing." The last chapter is made especially interesting from the fact that two or three of the largest organizations in the drug field are wholesale departments of cooperative chains, like the United Drug Company and American Druggist Syndicate. Their mode of organization and selling methods are better known than other types of wholesaler. The last two chapters of the reading assignment cover the selling agent, factor, commission merchant and broker, who stand in relation to the manufacturer and retailer as middlemen. As is the case with the other elements in these fields, their functions have become somewhat mixed. These are, briefly, to act as manufacturer's agent, to furnish markets, to guarantee or to collect accounts, to handle all or part of a manufacturer's output, or lastly, to finance the manufacturer. No one element has all of these functions.

Thus, in less than two hundred pages, you get a clear and comprehensive idea of the working of the wholesale system, about which less is generally known than almost any other part of the commercial structure. You may not now and never be engaged in it. But a working knowledge of this part of business, nevertheless, is essential to an understanding of it as a whole.

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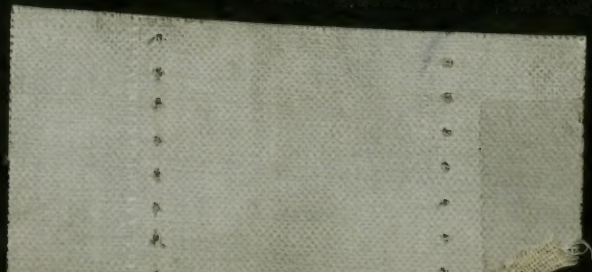

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